

Preparing to File the New Form 990

A Mini-Course Produced by IRS Exempt Organizations

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The script has three voices: Voice M (moderator); voice 1 (the 'questioner') and voice 2 (the 'knowledgeable one')

Voice M: Welcome to *Preparing to File the New Form 990*. This program is brought to you by IRS Exempt Organizations.

The New Form 990

- Form 990 has been substantially redesigned for 2008
- Many exempt organizations must report 2008 activities on the new Form 990 (filed in 2009)
- You may need to make changes to operations procedures **now** to ensure you file a complete, accurate return

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Voice 1: The IRS, for the first time in almost 30 years, has redesigned the Form 990, the information form that most tax-exempt organizations file. Many exempt organizations will be required to use this new form in 2009 to describe their 2008 activity—you may need to make changes now to be able to file a complete, accurate Form 990 in 2009. The IRS Exempt Organizations office has developed this mini-course to help you *Prepare to File the New Form 990*.

Course Objectives

- Provide an overview of structure of the new form
- Explain reasons for the changes
- Suggest how you can prepare to file, in light of the changes

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Voice 2: This mini-course is intended to:

provide an overview of the changes in structure of the new Form 990;
explain the reasons for these significant changes; and
alert you to what lies ahead, what you should think about, and how you can prepare.

Voice 1: Let's start with the changes to the structure of the form.

Structural Changes

- 11-part core form: all organizations complete
- 16 schedules: completed as necessary
- Part IV of core form: serves as a checklist of required schedules

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Voice 2: The form 990 has been completely redesigned for 2008. It now consists of an 11-part 'core' form that all organizations will complete and 16 supplemental schedules that organizations will complete as necessary.

Voice 1: How will my organization know which schedules are necessary to complete?

Voice 2: The schedules are designed to require reporting of information only from those organizations that conduct particular activities. Part IV of the core form includes a list of questions which serves as your checklist of required schedules; your answers will determine which schedules you must complete.

Voice 1: What is the purpose of the new schedules and won't this require a lot more work?

Schedules

- Many replace unstructured attachments
- Provide more uniform and complete reporting
- Maintains Schedules A and B
 - Old Schedule A converted into four new schedules
 - New Schedule A : Public Charity Status and Public Support
- New Schedule C: Political Campaign and Lobbying Activities
- New Schedule E: Schools
- New Schedule R: Related Organizations

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Voice 2: Actually, the new schedules are designed to make it easier to complete the form. In the past, organizations were required to submit a number of attachments in order to respond to certain questions on the form. Many of the new schedules simply replace the unstructured attachments and provide more uniform and complete reporting of requested information. Also, the old form included two schedules (Schedule A, *Organization Exempt under Section 501(c)(3), Supplemental Information*, and Schedule B, *Schedule of Contributors*) to be completed mostly by charities. These schedules remain. Old Schedule A, which was a hodge-podge of information, has been divided into four schedules. Public charities will now use the new Schedule A exclusively to report their public charity status and sources of support. Lobbying, campaign activities, and information required of schools will now be reported on separate schedules.

Voice 1: That explains some new schedules. What about the rest?

New Schedules

- Reflect changes in size and complexity of exempt sector
 - Compensation
 - Transactions with interested parties
 - Foreign activities
 - Non-cash contributions
 - Hospitals
 - Tax exempt bonds
- Most organizations will complete one to five schedules

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Voice 2: As you know, the exempt sector has grown, not only in size but also in complexity. Therefore, other new schedules were added to improve reporting on complex compensation issues, transactions with interested parties, foreign activities, and non-cash contributions. Specialized schedules were created to gather information about hospitals and organizations that are financed with tax-exempt bonds. But, the good news is, very few organizations will have to fill out ALL of the schedules. Most organizations will only fill out from one to five schedules, depending on the organization's types of activities.

Voice 1: How else does the new form differ from the old one?

The Core Form

- Completed by all organizations
- Summary page: snapshot of financial and operating information
- Program services accomplishments
- Checklist of schedules
- Tax compliance questions
- Governance section
- Revised compensation reporting
- Financial statements

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Voice 2: The new form includes a core form that will be completed by all organizations filing the Form 990. The core form includes a summary page that will provide a 'snapshot' of the organization's key financial and operating information, followed by a description of the organization's program service accomplishments, the checklist of schedules I mentioned earlier, some tax compliance questions, a governance section, and revised compensation reporting. The financial statements come at the end.

Voice 1: What information is required by the new governance section?

Governance – Part VI

- Requires information about:
 - Governing body and management
 - Governance policies
 - Disclosure practices
- Form asks questions about:
 - Number of independent voting members of governing body
 - Whether organization has conflict of interest policy
 - Whether organization contemporaneously documents governing body's meetings

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Voice 2: The new governance section, Part VI, requires information regarding an organization's governing body and management, governance policies, and disclosure practices. For example, it asks questions regarding the number of independent voting members on the governing body, whether the organization has a written conflict of interest policy, and whether the organization contemporaneously documents the governing body's meetings.

Voice 1: Why does the new form contain a section on governance, and does federal tax law require this information?

Why is there a Governance Section?

- Not required by law, but should be considered
- Governance policies and procedures generally improve compliance
- Consider appropriate policies/procedures based on organization:
 - Size
 - Type
 - Culture

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Voice 2: Even though governance, management, and disclosure policies and procedures generally are not required under the Internal Revenue Code, the IRS considers such policies and procedures generally to improve tax compliance. However, whether a particular policy, procedure or practice should be adopted by an organization may depend upon the organization's size, type and culture. It is important that each organization consider the governance policies and practices that are most appropriate for that organization in assuring sound operations and compliance with the tax law.

Voice 1: What should we be doing now to prepare to file the new form?

What Should You Do Now?

- Review the form with internal people, tax preparer
 - Identify required information
 - Identify person responsible for data collection
- Determine required changes to reporting systems and operations--and implement the changes promptly
- Consider how to use form to your advantage-- clearly present information

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Voice 2: Because you may need to gather more or different information than you did in previous years, you might consider adjusting the way you prepare to file the Form 990.

You could approach it in three major steps, all of which should be taken before your 2008 tax year ends:

Sit down with your internal people and your preparer, review the new form, and identify what new information is needed and who should be responsible for collecting the data.

If you think you need changes in your recordkeeping or reporting systems or operations, make them as soon as you can, now if possible.

Consider how the new form can work to your advantage, such as by more clearly presenting information regarding your organization.

Voice 1: Who should be involved in reviewing the new form?

Who Should be Involved?

- Those previously involved with completing the form: accounting, legal staff, past tax preparers
- Consider size, complexity of organization, and new information required
 - Large organizations: Involve program directors, IT, human resources
 - Small organizations: Involve office staff who perform similar functions
- Development and fundraising staff
- Grant selection/monitoring personnel
- Board members
 - Clarify role in completing or reviewing form
 - Insure they are aware of governance, compensation and disclosure questions

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Voice 2: Good question. Probably more people than in the past. It will depend upon your organization's size and complexity. Determining what new information you will need to collect will help you identify who should be involved.

Start with your accountant, staff, lawyer and anyone else who was previously involved in completing the form; make sure they are aware of the changes.

Then, consider whether you need to involve others from within your organization.

For example, you'll need comprehensive statements of changes in your organizational accomplishments; methods to collect various pieces of new data, including information on certain transactions with and between your officers, directors, trustees, and key employees; and a reassessment of the organization's officers and key employees for executive compensation reporting. This may require the help of program directors, accounting, IT and human resources staff for larger organizations, or whoever takes care of your administration if you're a smaller organization.

If you are a charity, you may also want to involve your development and fundraising staff to provide information about your fundraising activities, your business operations and the work your volunteers perform in furtherance of your goals. If you provide grants you may want to involve grant selection personnel and others who can help you report on how grants are used so you can include this information in your statement of your program service accomplishments.

Don't forget—and this is important—to talk with your board members to make sure they are aware of the changes and how they might affect their responsibilities. For example, you will want to educate them on the new governance questions, compensation reporting and disclosure items, and clarify the role they might play in completing or reviewing your Form 990.

Who Should be Involved?

- Consider outside assistance
 - Legal counsel: governance policies, procedures, joint ventures, foreign activities
 - Compensation specialist: complex compensation issues
 - Accounting professional: reporting on joint ventures, foreign activities
- Suggestion: Identify one person to assemble team and oversee process

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Voice 2: And, finally, consider whether you need to look for help outside your organization. You may need legal counsel to advise you about reassessing or adopting certain governance policies or to advise you about transactions involving related parties, joint ventures or foreign activities. You may also need to consider asking a compensation specialist to help you address complex compensation issues or an accounting professional who can help you report your organization's involvement in joint ventures or foreign activities.

Voice 1: Sounds like a team effort.

Voice 2: Definitely. Some organizations have found that it's a good idea to identify one person to assemble the right people and oversee this process.

Make Operational Changes - NOW

- Revise accounting practices, develop new policies or adopt new procedures
- Review new compensation reporting requirements
 - Must report on calendar year basis using Form W-2 and/or 1099-Misc
 - Schedule J filers: must list base compensation and bonuses, deferred compensation, nontaxable benefits, other compensation; report on compensation practices

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Voice 2: Now let's look at the second step—Make necessary changes to your operations NOW. Revise your accounting practices, maybe develop new policies or adopt new procedures. Here are a few areas to focus on:

Look at the compensation reporting requirements. Unlike the previous Form 990, the new form requires all organizations to report compensation on a calendar year basis using amounts reported on Forms W-2 and/or 1099-MISC. For those officers, directors, trustees, and key employees listed in Part VII and Schedule J, organizations will have to list base compensation as well as bonuses, deferred compensation, nontaxable benefits and other types of compensation. Organizations that have to file Schedule J will need to report information regarding their compensation practices.

Make Operational Changes - NOW

- Ensure accounting systems permit collection of appropriate information
- Review governance questions; consider adopting/revising governance policies and practices
- Ensure board and committee activity is well documented

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Ensure that your accounting systems enable you to collect the proper financial information.

Review the governance questions in Part VI of the core form. Consider adopting or revising existing policies to ensure good governance practices and sound financial reporting appropriate to your organization. You'll also want to ensure that actions of the board and its committees are well documented.

Voice 1: Now I can see why there could be a problem if these things aren't addressed before the close of the tax year.

Use the New Form 990 to Your Advantage

- Summary Page: Create a good first impression
- Part III: Tell the world about your work
- Part V: Show you're tax compliant
- Part VI and XI: Show accountability and transparency
- Schedule O: Explain how your activities support your mission or goal
- Annual report to IRS, constituents, contributors, and media

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Voice 2: My point exactly. Now let's look at the other side of the coin--the various ways the new form can work to your advantage.

First impressions are important and the summary page, which provides a snapshot of your organization, will help to establish that impression

Part III—Program Services Accomplishments—this is where you can tell the world about the work your organization does

Part V—show you're a tax compliant 'good citizen'

Parts VI and XI—show your accountability and transparency by describing how you are governed and how you make your governance policies, IRS filings, and financial statements publicly available

Schedule O—'O' for opportunity to 'tell your story.' This can be a way to explain how your activities support your mission and goals.

The new Form 990 serves as an annual report not only to the IRS, but also to constituents, contributors and the media. It also makes it easier to compare similar organizations, which you can use to your advantage by providing complete and accurate information.

Voice 1: Sounds too good to be true.

Use the New Form 990 to Your Advantage

- Provide explanations to clarify information of interest to the public and IRS
- Summary Page: changes in your finances from year-to-year
- Part IV: “Yes” or “No” responses
- Executive compensation
- Part 1, line 16a: fundraising expenses
- Schedule L and Part VI, line 12: insider transactions
- New 990 not just about numbers anymore

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Voice 2: It will depend upon your story. But keep in mind you can also use it to provide explanations for those areas the public and the IRS will be paying attention to. The summary page shows a comparison between your current and prior year key financial information—an explanation could be helpful if your finances have changed appreciably;

Certain ‘yes’ or ‘no’ responses on your Checklist of Required Schedules probably need to be explained; for example, answering ‘yes’ to questions about conducting political activity or being involved in excess benefit transactions;

Be prepared to show your executive compensation expenditures are appropriate given the services provided;

Are your fundraising expenses unusually high for the tax year?

An explanation accompanying Part I, line 16a could provide important insight.

Did your organization engage in insider deals, such as loans or business relationships with officers and directors? Schedule L and Part VI, line 12 could be telling.

Fortunately, the form allows adequate opportunity and space to clarify or explain circumstances where a simple ‘yes’ or ‘no’ might not tell the whole story.

Voice 1: I guess the Form 990 isn’t about just numbers anymore—it’s about the whole picture--activities, numbers, governance, and tax compliance. This is really a big change. Are there any other tips for filing a complete return?

Tools to Make Filing Easier

Instructions feature special tools

- Glossary of terms
- Appendices for special topics
- Examples and illustrations
- Sequencing list
- Comprehensive compensation table

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Voice 2: Yes, the instructions for the redesigned form provide you with some handy tools to make filing easier—first to understand then to complete the form. Tools like:

A glossary of important terms;

Appendices that cover several specialized topics;

Additional examples and illustrations to make the Form and instructions easier to understand;

A sequencing list with directions to the most logical route through the form; and

A comprehensive compensation table that tells you where to report various types of compensation.

Voice 1: Won't all of these changes be traumatic for smaller organizations?

Tools to Make Filing Easier

Small organizations

- 3 year transition period to adjust to new form
- File Form 990-EZ in lieu of Form 990
- Requires much less reporting
- Refer to Charities and Non-profit pages of IRS.gov for phase-in chart

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Voice 2: It's a big change. The IRS realized that many smaller organizations will need some additional time to adjust to the new form. So it developed a three-year transition period which allows these organizations, based on the amount of their gross receipts and total assets, to file a Form 990-EZ in lieu of the Form 990. The 2008 Form 990-EZ involves much less reporting than the 2008 Form 990 requires, and about the same amount of reporting as the 2007 Form 990-EZ required. A chart showing the thresholds filing amounts for the Form 990 and Form 990-EZ is available on the Charities and Non-profit pages of IRS.gov.

Voice 1: So, now that we understand the new structure of the form, the reasons why the IRS made these major changes, and how to prepare to file, where do we go from here?

www.IRS.gov/eo

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Voice 2: As always, there is a wealth of information on the IRS Web site, including a comparison of the 2008 Form 990 filing requirements with the 2007 Form 990 filing requirements. And remember—as the Scouts say, “Be Prepared!”